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EFFECTS ON NORTH KOREA AND NORTH VIETNAM
OF ECONOMIC SANCTIONS BY THE SOVIET BLOC



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FOREWORD

This publication deals only with the effect of economic sanctions on North Korea and North Vietnam by the Soviet Bloc (the USSR and the European Satellites other than Albania). The publication assumes that simultaneous sanctions would be taken by the Soviet Bloc against Communist China.

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The Sino-Soviet Bloc has pumped large amounts of economic aid into North Korea and North Vietnam during the past 5 to 10 years in order to help these countries achieve economic stability. If, as a result of the ideological dispute between Moscow and Peiping, either Communist China or the Soviet Bloc (that is, the USSR and the European Satellites other than Albania) should sever economic ties with North Korea and North Vietnam, there would be immediate effects on the economies and military forces of these two countries. Although both North Korea and North Vietnam are less dependent on economic aid than they were several years ago, their economic relations with the Sino-Soviet Bloc still constitute a substantial part of their resources for further development. The following paragraphs examine the extent and kinds of economic pressure that the Soviet Bloc could exert against North Korea and North Vietnam in an effort to keep these countries from backing Peiping in the Sino-Soviet dispute.

I. Effects on North Korea of Economic Sanctions by the Soviet Bloc

Economic sanctions by the USSR and the European Satellites would have a serious effect on North Korean industrial production and defense capabilities, even considering a vigorous effort by Communist China to fill essential requirements formerly met by the Soviet Bloc. The USSR, assisted by the European Satellites after 1949, has been primarily responsible for the rehabilitation of the North Korean economy and military forces following both World War II and the Korean War. As a result of this assistance, North Korea has become highly dependent on Soviet Bloc technology and trade. The position of the Soviet Bloc as the primary source of supply of technical advisers, new machinery and equipment, petroleum products, and spare parts for the industrial and war machines is of particular importance. It is believed that China and non-Communist

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trading partners would not be able effectively to fill the loss caused by a complete break in relations with the Soviet Bloc.

1. Defense Capabilities

The effectiveness of the North Korean armed forces would be sharply reduced by a cessation of Soviet Bloc trade, aid, and technical assistance. Almost the entire range of modern military goods and equipment in the North Korean inventory, excluding clothing and food, is imported from the Soviet Bloc. This inventory includes all aircraft, naval vessels, artillery, armor, communications equipment, munitions, and advanced electrical and fire control systems. North Korean domestic production is limited to an adequate supply of shoulder weapons, small mortars, and small arms ammunition and an inadequate supply of light and medium artillery ammunition.

Since 1953 the North Korean armed forces have undergone extensive reorganization, modernization, and standardization of weapons and equipment. Increased efficiency and effectiveness is almost entirely the result of Soviet Bloc financial and technical assistance. For example, it is estimated that from 500 to 700 Soviet military advisers are currently serving in North Korean military units down to the corps and division levels.

It is believed that North Korean military leaders would strongly resist any move toward a complete break with the Soviet Bloc. A cessation of trade and aid would not only stop the flow of new arms and equipment but would shut off all supplies of POL and spare parts essential to the North Korean war machine. Communist China would not be able to replace the Soviet Bloc as an effective source of military supply in the short run -- 1 to 3 years.

2. Industrial Production

The rehabilitation and expansion of heavy industry (including the electric power, mining, metalworking, machine building, and chemical industries) in North Korea is almost entirely an accomplishment of Soviet

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Bloc grants and loans; blueprints and designs; advisers and technicians; and, above all, machinery and equipment. Imports of machinery and equipment from the Soviet Bloc, including complete industrial plants, have ranged from 68 percent of total imports in 1958 to 31 percent in 1961. A total Soviet Bloc trade embargo would mean that replacement parts for almost the entire range of heavy industrial machinery and equipment would be stopped. It is believed that current North Korean spare parts inventories could supply industrial enterprises for only a short time, perhaps 6 to 24 months depending on the complexity of operation of individual industries. The North Korean machine building industry produces only a narrow range of lathes, milling machines, and drills, and, consequently, North Korea has very little capability for manufacturing industrial replacement parts for domestic industry. The impact on light industry would be less serious, for Communist China has a stronger capability in this area.

3. Petroleum Products

North Korea does not produce petroleum domestically. All petroleum products consumed by industry and the military in North Korea are imported from the Soviet Bloc. Imports of POL have been increasing in recent years and currently make up about 18 percent of total imports. No alternative source of supply could be developed in the short run; Communist China could supply only very small quantities. Although adequate supplies of petroleum would be available from Free World sources, North Korea does not have active trade relationships with non-Communist countries that have exportable surpluses of petroleum. Moreover, serious problems in transport and handling probably would arise if all imports of petroleum had to be received by sea rather than by rail, as is now the case.

4. Grain

North Korea is faced with a chronic shortage of grains -- its staple foodstuff -- and has received timely assistance from the Soviet Bloc when harvests have been particularly poor. In 1961, after an alleged bumper harvest, the North Koreans imported a total of 290,000 metric tons (mt) of wheat and barley from the USSR (26 kilograms [kg]

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per person, compared with grain imports of 7 kg per person by Communist China in 1961), but the possibility that most of the imported grain was re-exported to Communist China is not discounted. The USSR has proved itself to be a reliable source of emergency foodstuffs, a performance that China might find difficult to match.

5. Technical Assistance

The withdrawal of the estimated 650 Soviet Bloc civilian technicians and advisers in North Korea would be a serious impediment to the operating efficiency of North Korean industry. Soviet Bloc personnel continue to provide valuable advisory and even supervisory assistance, especially in the important chemical, metallurgical, and machine building industries. North Korean engineers and management personnel would have a difficult time if left completely on their own, judging from the experience of their counterparts in Communist China. Similarly the North Korean armed forces would have difficulty maintaining and operating aircraft and other complicated military hardware without Soviet Bloc assistance.

6. Exports and Alternative Sources of Supply

The bulk of North Korean exports (approximately 69 percent in 1961) are minerals, ferrous and nonferrous metals, and chemicals, and although the quality of finished and semifinished items is often low, North Korean exports could be absorbed by Communist China and would generally be acceptable in world markets.

North Korean officials claim to have established trade relations with 27 non-Communist nations, but in 1961 only Japan, Hong Kong, Australia, and West Germany traded in amounts exceeding \$1 million. A report stating that North Korea wishes to increase trade with Japan from \$8 million in 1961 to 10 percent of total North Korean trade by 1964 reflects a general desire to expand and diversify trade. In spite of this avowed desire, the search for new, non-Bloc markets for North Korean goods will continue to be slow and tedious.

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II. Effects on North Vietnam of Economic Sanctions by the Soviet Bloc

The seriousness of the effects on North Vietnam of a complete break with the Soviet Bloc will depend on the extent to which Communist China or another supplier could fill the role now played by the Soviet Bloc and the speed with which this turn to an alternative source of supply could be accomplished. These developments will vary in each of the areas noted below.

1. Scope of Future Economic Development

A complete break in Soviet Bloc economic relations with North Vietnam would, at least temporarily, disrupt the industrialization program under the North Vietnamese First Five Year Plan (1961-65). Important projects in the fields of electric power, coal and apatite mining, engineering, chemicals, telecommunications, and cement would be canceled; several hundred technicians and at least \$175 million in outstanding credits would be withdrawn; the flow of technical data would cease; and the few hundred Vietnamese students in the USSR would return. This disruption could be largely overcome if the Chinese Communists -- as seems likely -- agreed to underwrite the industrialization of North Vietnam. Some contraction in the scope of economic development under the First Five Year Plan probably would result, and the average quality of equipment and technical assistance would be lower. But major requirements of the program in industry, an industry that still uses relatively simple technology, probably could be readily met by the Chinese. Some loss in the quality of training also would be likely as a result of withdrawing Vietnamese students from Soviet universities and perhaps sending them to study in China.

2. Production

It is believed that the effects on the current production of North Vietnam resulting from the denial of Soviet Bloc imports, which totaled at least \$66 million in 1961, and technical assistance would be substantial, particularly in recently completed Soviet Bloc aid projects in heavy industry, but these effects would be largely transitory. Soviet Bloc

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imports and technical assistance are important to heavy industrial production in North Vietnam, but heavy industry is still a relatively minor sector of the economy -- comprising only about one-third of the gross value of industrial production. In addition, major imports from the Soviet Bloc other than machinery and equipment -- petroleum products, motor transport equipment, ferrous metals and products, nonferrous metals and products, and chemical fertilizers -- probably could be procured largely from Communist China or Free World countries. Spare parts for Soviet Bloc equipment installed in North Vietnamese plants might prove a more difficult problem but with Chinese help probably could be largely overcome. North Vietnam has no domestic petroleum industry, and if it were primarily dependent on China for petroleum products, imports -- on the order of 100,000 mt in 1961 -- might be reduced by as much as one-half, even in the long run, and the quality of the products in general would be lower. China probably could ship supplies for most basic requirements of motor gas and diesel fuel, even though petroleum products available to China would undoubtedly be seriously reduced as the result of a similar Soviet embargo and even though a large increase in rail shipments of petroleum products from China would for a time add to tank car transfer problems at the China - North Vietnam border. The relatively small supplies of aviation gas and special lubricants presently received from the USSR, however, would have to be sought from Free World countries.

The effect of the withdrawal of Soviet Bloc technicians would vary even in plants completed with Soviet Bloc aid. For example, North Vietnam's only fertilizer plant, the Phu Tho superphosphate plant, constructed with Soviet assistance, started production in the summer of 1962. Although involving a relatively simple technology, this plant seems to be encountering some growing pains -- an indication that Soviet technicians are still needed to get the plant into full operation. Withdrawal of the technicians would be likely to disrupt production at this plant, but Chinese technicians could be sent to replace the Soviet personnel. On the other hand, the Hanoi machine tool plant -- North Vietnam's only modern machine tool plant, its most important industrial facility now in production, and the largest Soviet aid project to date -- started production in 1958 and probably would be little affected by the withdrawal of

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Soviet technicians. This plant is now producing a narrow range of light metal-cutting machine tools and other machinery, including mechanical irrigation pumps, simple reaping and sowing machines, threshing machines, concrete mixers, small-size electric motors, and conveyors. The Hanoi plant is believed to be able to turn out this relatively simple product mix with only periodic technical help of a troubleshooting nature, and it is believed that Chinese technicians could handle tasks of this type.

3. Military Forces

The net effect on North Vietnam (after a period of adjustment) of cutting off the flow of Soviet Bloc military equipment and supplies is likely to be some decline in the quantity and the average quality of military equipment and supplies received by the North Vietnamese military forces. Communist China, in spite of current industrial and other difficulties, still is believed to have an armaments industry capable of producing most of the equipment and ammunition required by North Vietnam's conventional type of military forces. Motor transport equipment probably would be received in smaller quantities, but essential military requirements for petroleum products, except aviation gas and special lubricants, probably could be filled by the Chinese.

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